

**CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE
RETIREMENT SYSTEM**

**Financial Statements
And
Supplementary Information**

**For the Year Ended
June 30, 2008**



REHMANN ROBSON

Certified Public Accountants

**CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM**

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INDEPENDENT AUDITORS' REPORT

December 10, 2008

To the Retirement Board
City of Battle Creek, Michigan
Police and Fire Retirement System
Battle Creek, Michigan

We have audited the accompanying statement of plan net assets of the ***City of Battle Creek, Michigan Police and Fire Retirement System*** as of June 30, 2008, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Retirement Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the City of Battle Creek, Michigan Police and Fire Retirement System pension trust fund and do not purport to, and do not present fairly the financial position and the changes in financial position of the City of Battle Creek, Michigan in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Battle Creek, Michigan Police and Fire Retirement System as of June 30, 2008 and the changes in plan net assets thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The historical pension information listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

FINANCIAL STATEMENTS

CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM

Statement of Plan Net Assets

June 30, 2008

	<u>Pension</u>	<u>Health</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 2,535,610	\$ 500,000	\$ 3,035,610
Investments:			
U.S. treasuries	4,799,757	-	4,799,757
U.S. agencies	13,148,334	-	13,148,334
Domestic corporate securities	22,591,629	-	22,591,629
Domestic equities	45,263,663	-	45,263,663
American depository receipts	12,320,437	-	12,320,437
International equities	5,416,835	-	5,416,835
Real estate trusts	101,520	-	101,520
Total investments	103,642,175	-	103,642,175
Interest receivable	539,129	-	539,129
Pension contributions receivable	1,888,682	-	1,888,682
 Total assets	 108,605,596	 500,000	 109,105,596
Liabilities			
Accounts payable	-	500,000	500,000
 Net assets held in trust for pension and postemployment healthcare benefits	 <u><u>\$ 108,605,596</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 108,605,596</u></u>

(A schedule of funding progress for the pension plan is presented on page 11.)

The accompanying notes are an integral part of these financial statements.

CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2008

	<u>Pension</u>	<u>Health</u>	<u>Total</u>
Additions			
Investment income:			
Net depreciation in fair value of investments	\$ (5,047,646)	\$ -	\$ (5,047,646)
Interest and dividends	4,729,601	-	4,729,601
Less investment expenses	(1,562,917)	-	(1,562,917)
	<u>(1,880,962)</u>	<u>-</u>	<u>(1,880,962)</u>
Net investment loss			
	(1,880,962)	-	(1,880,962)
Contributions:			
Employer	3,117,333	500,000	3,617,333
Employees	1,022,201	-	1,022,201
	<u>4,139,534</u>	<u>500,000</u>	<u>4,639,534</u>
Total contributions			
	4,139,534	500,000	4,639,534
Total additions	<u>2,258,572</u>	<u>500,000</u>	<u>2,758,572</u>
Deductions			
Pension benefit payments	6,052,012	-	6,052,012
Contribution refunds	114,970	-	114,970
Medical insurance premiums	-	500,000	500,000
Administrative expenses	10,389	-	10,389
	<u>6,177,371</u>	<u>500,000</u>	<u>6,677,371</u>
Total deductions			
	6,177,371	500,000	6,677,371
Net deductions from net assets held in trust for benefits	(3,918,799)	-	(3,918,799)
Lookback adjustment between plans	109,203	(109,203)	-
Net assets held in trust for benefits, beginning of year	<u>112,415,192</u>	<u>109,203</u>	<u>112,524,395</u>
Net assets held in trust for benefits, end of year	<u><u>\$ 108,605,596</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 108,605,596</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF BATTLE CREEK, MICHIGAN

Police and Fire Retirement System

Notes To Financial Statements

1. PLAN DESCRIPTION

The City of Battle Creek, Michigan Police and Fire Retirement System (the “System”) is a single-employer defined benefit contributory pension plan which provides retirement, disability, death and postemployment healthcare benefits to plan members and their beneficiaries in accordance with the City of Battle Creek’s (the “City”) pension ordinance. The System covers all police and fire employees of the City of Battle Creek.

System membership consisted of the following at June 30, 2007, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	208
Terminated employees entitled to but not yet receiving benefits	5
Vested and non-vested active participants	<u>201</u>
Total	<u>414</u>

Plan members are required to contribute between 7.5% and 10% of their annual covered salary to the System for pension benefits, depending on bargaining unit. The City contributes such additional amounts as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. The City’s pension contribution for the year ended June 30, 2008 represented 23.33% of the annual covered payroll; the contribution for healthcare benefits represented 5.0% of annual covered payroll.

The System is administered by the Retirement Board of the City of Battle Creek, Michigan Police and Fire Retirement System. Plan benefit provisions were established and may be amended under the authority of City Ordinances. Contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the Retirement Board and City of Battle Creek City Commission.

CITY OF BATTLE CREEK, MICHIGAN
Police and Fire Retirement System

Notes To Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The System's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Valuation of Investments and Income Recognition - The System's investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages, if any, are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, if any, is based on independent appraisals. Investments that do not have established market values are reported at estimated fair value.

Administration - Administrative costs are financed through the System's investment earnings.

3. DEPOSITS, INVESTMENTS AND SECURITIES LENDING

Deposits - The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statement of plan net assets are composed entirely of short-term investments in money market accounts.

Investments - The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Retirement Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System's assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

CITY OF BATTLE CREEK, MICHIGAN
Police and Fire Retirement System

Notes To Financial Statements

The System's investments are held in a bank-administered trust fund. Following is a summary of the System's investments as of June 30, 2008:

Investments at fair value, as determined by quoted market price:	
U.S. treasuries	\$ 4,799,757
U.S. agencies:	
Not on securities loan	9,996,092
On securities loan	3,152,242
Domestic corporate securities:	
Not on securities loan	22,484,180
On securities loan	107,449
Domestic equities:	
Not on securities loan	36,074,116
On securities loan	9,189,547
American depository receipts	12,320,437
International equities	5,416,835
Real estate investment trusts	<u>101,520</u>
Total investments	<u>\$103,642,175</u>

In addition to the above, the System has short-term investments of \$3,035,610 as of June 30, 2008 held entirely in money market funds.

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in trust by a third-party institution in the System's name. As such, although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the System's name.

Short-term investments in money market funds are not subject to custodial credit risk.

CITY OF BATTLE CREEK, MICHIGAN

Police and Fire Retirement System

Notes To Financial Statements

Credit Risk. The System's investment policy provides that its investments in fixed income securities be limited to those rated BBB or better by a nationally recognized statistical rating organization. As of June 30, 2008, the System's investments in securities of U.S. agencies were all rated AAA by Standard & Poor's. The System's investments in corporate securities were rated by Standard & Poor's as follows:

AAA	\$ 4,299,506
AA+	501,460
AA	2,363,402
AA-	1,535,031
A+	4,746,941
A	4,075,385
A-	1,984,954
BBB+	1,321,530
BBB	1,007,259
BBB-	756,161
	<u>\$ 22,591,629</u>

Concentration of Credit Risk. At June 30, 2008, the U. S. agencies investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>Portfolio</u>
U.S. agencies	Federal National Mortgage Association	17.7%
	Federal Home Loan Mortgage Corporation	9.2%
	Federal Home Loan Bank	7.7%

The System's investment policy requires that the securities of any one company or government agency should not exceed 10% of the total fund and no more than 25% of the total fund should be invested in any one industry.

CITY OF BATTLE CREEK, MICHIGAN

Police and Fire Retirement System

Notes To Financial Statements

Interest Rate Risk. As of June 30, 2008, maturities of the System's debt securities (none of which were callable) were as follows:

	Fair Value	Investment Maturities (fair value by years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. treasuries	\$ 4,799,757	\$ 346,349	\$ 2,630,625	\$ 868,258	\$ 954,525
U.S. agencies	13,148,334	1,207,908	3,618,138	1,214,381	7,107,907
Domestic corporate securities	22,591,629	705,268	11,721,489	6,247,070	3,917,802
Total debt securities	\$ 40,539,720	\$ 2,259,525	\$ 17,970,252	\$ 8,329,709	\$ 11,980,234

The System's investment policy provides that the maximum maturity for any single fixed income security is ten years and that the weighted average portfolio maturity may not exceed eight years.

Securities Lending. A contract approved by the System's Board, permits the System to lend its securities to broker-dealers and banks (borrowers) for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash as collateral. The collateral securities cannot be pledged or sold by the System unless the borrower defaults. Collateral cash is initially pledged at 100 percent of the fair value of the securities lent, and may not fall below 100 percent during the term of the loan. There are no restrictions on the amount of securities that can be loaned. Securities on loan at year-end are classified in the preceding schedule of custodial credit risk according to the category for the collateral received on the securities lent. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodian requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

4. ANNUAL REQUIRED CONTRIBUTION

The City's annual required contribution cost for the year ended June 30, 2008, was \$3,117,333 for pension benefits and \$500,000 for postemployment healthcare benefits. By agreement, effective July 1, 2007, the System is obligated to pay only \$500,000 annually for retiree healthcare and this amount will be provided annually by a City contribution to the System. The City made these required contributions totaling \$3,617,333 and has no retirement benefit obligation.

CITY OF BATTLE CREEK, MICHIGAN
Police and Fire Retirement System

Notes To Financial Statements

Three Year Trend Information			
(pension only)			
Year Ended	Annual Pension Cost	Percentage Contributed	Net Pension Obligation
6/30/06	\$ 2,458,298	100%	\$ -
6/30/07	2,877,942	100%	-
6/30/08	3,117,333	100%	-

5. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the pension portion of the System as of December 31, 2007, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	(1)	\$ 121,823,413	
Actuarial value of assets	(2)	108,245,308	
Unfunded AAL (UAAL)	(3)	<u>\$ 13,578,105</u>	(1) - (2)
Funded ratio	(4)	<u>88.9%</u>	(2) / (1)
Covered payroll	(5)	<u>\$ 12,358,265</u>	
UAAL as % of covered payroll	(6)	<u>109.9%</u>	(2) / (5)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. For purposes of the schedule of funding progress, the actuarial accrued liability value as shown is determined using the entry age actuarial cost method.

CITY OF BATTLE CREEK, MICHIGAN

Police and Fire Retirement System

Notes To Financial Statements

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the System by the employer in comparison to the ARC (annual required contribution), an amount that is actuarially determined in accordance with the parameters of GASB Statement 25. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation includes:

Valuation date	June 30, 2007
Actuarial cost method	Entry-age
Amortization method	Level percent-of-payroll
Remaining amortization period	30 year open
Asset valuation method	5-year smoothed market w/ 20% corridor
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases*	4.5% to 8.5%
Assume rate of payroll growth	4.5%
Cost-of-living adjustments	None

6. RISK MANAGEMENT

The System is exposed to various risks of loss related to torts, errors and omissions. The System participates in the City of Battle Creek's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss limits. The City estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the System that would require a liability to be recorded in the financial statements.

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GASB REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
 Required Supplementary Information

Schedule of Funding Progress - Pension Only

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Over (Under) Funded AAL (OAAL/UAAL) (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	OAAL/UAAL as a % of Covered Payroll
6/30/1998	\$ 79,796,431	\$ 74,796,184	\$ 5,000,247	106.7%	\$ 9,813,441	51.0%
6/30/1999	87,617,793	78,285,848	9,331,945	111.9%	9,749,682	95.7%
6/30/2000	95,548,441	83,980,778	11,567,663	113.8%	11,235,312	103.0%
6/30/2001	101,190,705	87,909,496	13,281,209	115.1%	11,615,098	114.3%
6/30/2002	103,950,731	95,368,883	8,581,848	109.0%	11,907,553	72.1%
6/30/2003	103,655,770	100,346,606	3,309,164	103.3%	11,855,130	27.9%
6/30/2004	103,745,735	104,336,169	(590,434)	99.4%	12,114,360	-4.9%
6/30/2005	102,755,663	110,487,311	(7,731,648)	93.0%	12,085,192	-64.0%
6/30/2006	103,283,413	114,501,359	(11,217,946)	90.2%	12,283,787	-91.3%
6/30/2007	108,245,308	121,823,413	(13,578,105)	88.9%	12,358,265	-109.9%

Schedule of Employer Contributions - Pension Only

Year Ended June 30	Annual Required Contributions	Percentage Contributed
1999	\$ 1,337,217	100%
2000	1,059,179	100%
2001	732,366	100%
2002	622,566	100%
2003	468,005	100%
2004	1,268,053	100%
2005	1,824,879	100%
2006	2,458,298	100%
2007	2,877,942	100%
2008	3,117,333	100%